

VIRGINIA POVERTY LAW CENTER, INC.

**Financial Statements
and
Accompanying Information
for years ended
June 30, 2018 and 2017**

Tax Exempt Providers of Legal Services Support

Draft - Subject to Review and Discussion

VIRGINIA POVERTY LAW CENTER, INC.

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Draft - Subject to Review and Discussion

Frank J. Barcalow CPA, P.L.L.C.

Independent Auditor's Report

The Board of Directors
Virginia Poverty Law Center, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Poverty Law Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Poverty Law Center, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and statement of support, revenue and expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018 on our consideration of Virginia Poverty Law Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Virginia Poverty Law Inc.'s internal control over financial reporting and compliance.

Frank Barcalow CPA, P.L.L.C.

Frank Barcalow CPA, P.L.L.C.
Richmond, Virginia
November 2, 2018

VIRGINIA POVERTY LAW CENTER, INC.

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Statements of Financial Position June 30, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 1,105,596	\$ 348,698
Investments	1,681,606	1,788,625
Accounts receivable	86,370	539,724
Prepaid expenses	19,735	12,596
Deposits	<u>11,462</u>	<u>7,530</u>
Total current assets	<u>2,904,769</u>	<u>2,697,173</u>
Property and equipment		
Furniture and equipment	98,115	95,504
Less accumulated depreciation	<u>87,918</u>	<u>85,315</u>
Total property and equipment, net	<u>10,197</u>	<u>10,189</u>
Total assets	<u>\$ 2,914,966</u>	<u>\$ 2,707,362</u>

Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 104,100	\$ 355,819
Accrued vacation	66,080	55,216
Unearned revenue	<u>851,805</u>	<u>190,727</u>
Total current liabilities	<u>1,021,985</u>	<u>601,762</u>

Commitments

Net assets, unrestricted	<u>1,892,981</u>	<u>2,105,600</u>
Total liabilities and net assets	<u>\$ 2,914,966</u>	<u>\$ 2,707,362</u>

See notes to financial statements.

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VIRGINIA POVERTY LAW CENTER, INC.

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Statements of Activities For the Years Ended June 30, 2018 and 2017

	2018	2017
Support and revenue		
Grant income	\$ 3,263,231	\$ 3,475,313
Other income	99,556	41,928
Cy Pres Awards	28,116	962
Unrealized gain (loss) on investments	7,750	56,600
Realized gains	31,714	9,889
Investment income	32,386	28,991
	<u>3,462,753</u>	<u>3,613,683</u>
Total support and revenue		
	<u>3,462,753</u>	<u>3,613,683</u>
Expenses		
Program Services		
Legal training and support	3,443,266	3,549,963
Supporting services		
Management and general	224,242	200,686
Fundraising expense	7,864	17,383
	<u>3,675,372</u>	<u>3,768,032</u>
Total expenses		
	<u>3,675,372</u>	<u>3,768,032</u>
Change in net assets	(212,619)	(154,349)
Net assets at beginning of year, unrestricted	<u>2,105,600</u>	<u>2,259,949</u>
Net assets at end of year, unrestricted	\$ <u><u>1,892,981</u></u>	\$ <u><u>2,105,600</u></u>

See notes to financial statements.

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Statements of Functional Expenses
June 30, 2018 and 2017

For the Year ended June 30, 2018

	Program Expenses	Management and General	Fundraising Expenses	Total Expenses
Personnel	\$ 1,567,881	\$ 174,975	\$ 6,898	\$ 1,749,754
Travel	45,311	5,074	351	50,735
Space cost	135,746	15,083	-	150,829
Consumable supplies	26,650	3,016	499	30,164
Purchase and maintenance of equipment	19,722	2,191	-	21,913
Training	50,899	5,655	-	56,554
Other direct costs	63,129	7,027	116	70,272
Professional services	98,635	10,959	-	109,594
Sub-grant expense	1,422,303	-	-	1,422,303
Website	10,651	-	-	10,651
Depreciation expense	2,343	260	-	2,603
Total expenses	\$ 3,443,266	\$ 224,242	\$ 7,864	\$ 3,675,372

For the Year ended June 30, 2017

	Program Expenses	Management and General	Fundraising Expenses	Total Expenses
Personnel	\$ 1,339,057	\$ 149,508	\$ 6,515	\$ 1,495,080
Travel	43,772	4,897	298	48,967
Space cost	92,182	10,243	-	102,425
Consumable supplies	37,109	4,162	351	41,622
Purchase and maintenance of equipment	40,359	4,484	-	44,843
Training	78,244	8,694	-	86,938
Other direct costs	65,735	8,439	10,219	84,393
Professional services	90,837	10,093	-	100,930
Navigator sub-grant expense	1,757,607	-	-	1,757,607
Website	3,566	-	-	3,566
Depreciation expense	1,495	166	-	1,661
Total expenses	\$ 3,549,963	\$ 200,686	\$ 17,383	\$ 3,768,032

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**Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (212,619)	\$ (154,349)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	2,603	1,661
Unrealized gain (loss) on investments	7,750	56,600
(Increase) decrease in accounts receivable	453,354	(47,196)
(Increase) decrease in prepaid expense	(7,139)	14,391
(Increase) decrease in deposits	(3,932)	(1,959)
Increase (decrease) in accounts payable	(251,718)	2,023
Increase (decrease) in accrued vacation	10,864	(4,429)
Increase (decrease) in severance payable	-	(74,096)
Increase (decrease) in unearned support	<u>661,077</u>	<u>181,952</u>
Net cash provided by (used in) operations	<u>660,240</u>	<u>(25,402)</u>
Cash flows used in (provided by) investing activities		
Purchase of equipment	(2,610)	(9,721)
Purchase of investments	(96,846)	(997,925)
Sale of investments	<u>196,114</u>	<u>1,080,281</u>
Net cash provided (used in) investing activities	<u>96,658</u>	<u>72,635</u>
Net increase (decrease) in cash and cash equivalents	756,898	47,233
Cash and cash equivalents at beginning of year	<u>348,698</u>	<u>301,465</u>
Cash and cash equivalents at end of year	\$ <u><u>1,105,596</u></u>	\$ <u><u>348,698</u></u>

See notes to financial statements.

VIRGINIA POVERTY LAW CENTER, INC.

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Notes to Financial Statements June 30, 2018 and 2017

Note 1 - Nature of Activities and summary of significant accounting policies

Nature of activities

The Virginia Poverty Law Center, Inc. (Center) provides training and legal support services to local legal service providers on a statewide basis in Virginia.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States. Under generally accepted accounting principles, Virginia Poverty Law Center, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At the present time, the Center does not have any permanently or temporarily restricted net assets.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash equivalents

For purposes of the Statement of Cash Flows, the Center considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying amounts reported in the Statements of Financial Position approximates fair values.

Accounts receivable

Accounts receivable are reviewed by management and any that are considered to be uncollectible are charged to expense. There is no allowance for doubtful accounts because there has been historically no bad debt expense.

Grant support

Program funds received on approved grants are recorded as revenue when earned, unless received prior to the grant period, in which case they are recorded as unearned revenue. If any costs are reimbursable, a receivable is recorded to recognize the offsetting revenue.

Property and equipment

Property and equipment with a value great than \$1,000 are capitalized and are stated at cost. Depreciation is computed on the straight-line method over estimated useful lives of 5 to 7 years. Expenditures for maintenance and repairs are expensed currently, while expenditures for major additions and betterments are capitalized.

(continued)

VIRGINIA POVERTY LAW CENTER, INC.

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Notes to Financial Statements June 30, 2018 and 2017

Note 1 - Summary of significant accounting policies (concluded)

Allocation of expenses

The costs of providing programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Notes on Functional Expenses. Accordingly, certain costs have been allocated between the program and supporting services benefitted

Income taxes

Virginia Poverty Law Center, Inc. is a non-profit charitable organization as defined by Internal Revenue Code Section 501(c)(3) and is not subject to federal or state income taxes. The Center is not considered to be a private foundation within the meaning of Section 509(a) of the Code. The Center's income tax returns are potentially subject to examination by the Internal Revenue Service generally for three years after being filed. The Center has no uncertain tax positions for the current year or prior year.

Investments

Investments are composed of equity securities, certificate of deposits and mutual funds. Investments with readily determinable fair values are reported at their fair values in the statements of financial position. Donated investments are recorded at fair value as of the date received by the Center. Unrealized and realized gains and losses are reflected in the statements of activities.

Note 2 - Commitments

The Center rents office space under a sublease for ninety-three months with a starting monthly lease of \$4,665 per month. The lease payments increase by 3% every twelve months. The lease term ends March 31, 2023. The Center signed an additional sixty month lease ending in April 1, 2022 for additional office space. The lease payment increases by 3% every twelve months. Rental expense for 2018 was \$119,634 and for 2017 was \$102,425.

Minimum rental payments over the life of the lease are as follows:

2019	\$ 126 743
2020	130 538
2021	134 451
2022	103 556
2023	<u>53 016</u>
	\$ <u>548 304</u>

Note 3 - Grants concentration

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The Center's operations are funded primarily through grants from Legal Services Corporation of Virginia. The following tabulation details grants which make up greater than 10% of total funding.

	<u>2018</u>		<u>2017</u>
Legal Services Corporation of Virginia	\$ 830 413	\$	830 413
ACA and related grants	1 755 317		1 915 427

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 4 - Investments

The aggregate fair value, gross unrealized holding gains, gross unrealized holding losses, and amortized cost for investments at June 30, 2018 and 2017 are as follows:

	2018			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Exchange Traded Close Ends Funds	\$ 1 062 133	\$ 89 942	\$ 18 579	\$ 1 133 496
Certificate of deposits	<u>548 110</u>	<u>-</u>	<u>-</u>	<u>548 110</u>
	<u>\$ 1 610 243</u>	<u>\$ 89 942</u>	<u>\$ 18 579</u>	<u>\$ 1 681 606</u>
	2017			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Exchange Traded Close End Funds	\$ 1 027 582	\$ 73 007	\$ 7 596	\$ 1 092 993
Certificate of deposits	<u>698 327</u>	<u>-</u>	<u>2 695</u>	<u>695 632</u>
	<u>\$ 1 725 909</u>	<u>\$ 73 007</u>	<u>\$ 10 291</u>	<u>\$ 1 788 625</u>

Total interest earned in the current year totaled \$32,386 and the prior year totaled \$28,991.

Note 5 - Pension plan

The Center adopted a pension plan which qualifies under Section 403(b) of the Internal Revenue Code, in which employees may elect to have amounts withheld from their salaries and invested in tax deferred annuities. The Center contributes up to 8% of the employees' salary. Expenses under this plan totaled \$20,039 in 2018 and \$23,534 in 2017.

Note 6 - Subsequent events

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through November 2, 2018 the date the financial statements were issued.

**Notes to Financial Statements
June 30, 2018 and 2017**

Note 7 - Concentration of credit risk

Financial instruments which potentially subject the Center to concentration of credit risks consist principally of cash and cash equivalents. The Center maintains its cash balances in financial institutions located in central Virginia. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. Balances exceed the insured amount from time to time, but management does not believe there is significant risk.

The Center also has investments with a broker in the central Virginia area which is insured for up to \$100,000 for cash balances and a total of \$500,000 for cash and investment balances by the Securities Investor Protection Corporation (SIPC). The broker has also obtained additional insurance for accounts that have balances greater than the SIPC limit. The insurance does not cover losses caused by market value changes.

Management monitors receivables on a continuing basis and believes the credit risk is minimal because of close monitoring.

Note 8 - Fair value measurements

The Center records fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Three levels of the fair value hierarchy are as follows:

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

All investments were measured at fair value by level one valuation.

Note 9 - Future accounting pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update, (ASU) No. 2016-14, "Not for Profit Entities: Presentation of Not-for-Profit Entities", which both simplifies certain aspects of reporting required by non-for-profit organizations and increases disclosures with a goal to improve the usefulness of non-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Significant changes include the following: replaces the existing three classes of net assets, with two classes of net assets, net assets with donor restrictions, and without donor restrictions; requires all not-for-profits to provide expenses by nature and function; requires expansive disclosures of information about liquidity and availability of resources.

The amendments are effective for fiscal years beginning after December 15, 2017.

Accompanying Information

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VIRGINIA POVERTY LAW CENTER, INC.

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Statement of Support, Revenue and Expenses

For the Year Ended June 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018								
	Legal Services Corporation of Virginia IOLTA	Domestic Violence Grant	Victim Witness Program	Other Grants	ACA Healthcare Grants	Property and Equipment	General	Total	2017 Total
Support and revenue									
Grants and contracts	\$ 740,413	\$ 21,894	\$ 535,926	\$ 655,606	\$ 1,219,392	\$ -	\$ -	\$ 3,173,231	\$ 3,385,313
Bank of America	90,000	-	-	-	-	-	-	90,000	90,000
Other income	-	-	-	-	-	-	99,556	99,556	41,928
Cy Pres awards	-	-	-	-	-	-	28,116	28,116	962
Unrealized gains (losses)	-	-	-	-	-	-	7,750	7,750	56,600
Realized gains (losses)	-	-	-	-	-	-	31,714	31,714	9,889
Interest income	-	-	-	-	-	-	32,386	32,386	28,991
Total support and revenue	830,413	21,894	535,926	655,606	1,219,392	-	199,522	3,462,753	3,613,683
Expenses									
Personnel	349,204	21,894	140,251	653,921	175,326	-	409,158	1,749,754	1,495,080
Travel	49,533	-	-	-	1,202	-	-	50,735	48,967
Space cost	150,829	-	-	-	-	-	-	150,829	102,425
Consumable supplies	29,549	-	-	-	615	-	-	30,164	41,622
Purchase and maintenance of equipment	21,913	-	-	-	-	-	-	21,913	44,843
Training	56,554	-	-	-	-	-	-	56,554	86,938
Other direct costs	58,666	-	-	-	11,606	-	-	70,272	84,393
Professional services	103,894	-	-	-	5,700	-	-	109,594	100,930
Sub-grant expense	-	-	395,675	1,685	1,024,943	-	-	1,422,303	1,757,607
Website	10,651	-	-	-	-	-	-	10,651	3,566
Depreciation expense	-	-	-	-	-	2,603	-	2,603	1,661
Total expenses	830,793	21,894	535,926	655,606	1,219,392	2,603	409,158	3,675,372	3,768,032
Change in net assets	(380)	-	-	-	-	(2,603)	(209,636)	(212,619)	(154,349)
Net assets at beginning of year	33,531	-	-	-	-	10,189	2,061,880	2,105,600	2,259,949
Acquisition of equipment	(2,611)	-	-	-	-	2,611	-	-	-
Net assets at end of year	\$ 30,540	\$ -	\$ -	\$ -	\$ -	\$ 10,197	\$ 1,852,244	\$ 1,892,981	\$ 2,105,600

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Virginia Poverty Law Center

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Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/ Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services Cooperative agreement to support navigators in Federally - facilitated And State Partnership exchanges	93.750	1 219 392
U.S. Department of Justice Victim Witness Program/New Initiative	16.575	535 926
U.S. Department of Justice Violence Against Women	16.588	<u>21 894</u>
Total Expenditures of Federal Awards		\$ <u>1 777 212</u>

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The accompanying notes are an integral part of this schedule

**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Virginia Poverty Law Center, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and Legal Services Corporation Audit Guide and Compliance Supplements. Because the Schedule presents only a selected portion of the operations of Virginia Poverty Law Center, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Virginia Poverty Law Center, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* or OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Virginia Poverty Law Center, Inc. has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Sub-recipient

Funding was provided from Department of Human Services Navigator grants to sub-recipients in the amount of \$1,024,943 for the current year.

Funding was provided from Department of Justice - Victim Witness Program/New Initiative grants to a sub-recipient (Legal Aid Justice Center) in the amount of \$395,675 for the current year.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Virginia Poverty Law Center, Inc.
Richmond, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Virginia Poverty Law Center Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Virginia Poverty Law Center Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Virginia Poverty Law Center Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virginia Poverty Law Center Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draft, Subject to Review and Discussion

Frank Barcalow CPA, P.L.L.C.
Frank Barcalow CPA, P.L.L.C.
Richmond, Virginia
November 2, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Virginia Poverty Law Center, Inc.
Richmond, Virginia

Report on Compliance for Each Major Federal Program

We have audited Virginia Poverty Law Center Inc.'s compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have a direct and material effect on each of Virginia Poverty Law Center, Inc.'s major federal programs for the year ended June 30, 2018. Virginia Poverty Law Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Virginia Poverty Law Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Virginia Poverty Law Center, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Virginia Poverty Law Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Virginia Poverty Law Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Virginia Poverty Law Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Virginia Poverty Law Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Virginia Poverty Law Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Frank Barcalow CPA, P.L.L.C.

Frank Barcalow CPA, P.L.L.C.

Richmond, Virginia

November 2, 2087

Draft - Subject to Review and Discussion

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

A - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____yes X no

Significant deficiency(ies) identified? _____yes X none reported

Noncompliance material to financial statements noted? _____yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____yes X no

Significant deficiency(ies) identified? _____yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with section 2 CFR-200.516(a) _____yes X no

Identification of major programs:

<u>Name of federal program</u>	<u>CDFA Number</u>
Virginia Poverty Law Center Cooperative agreement to support navigators in Federally facilitated and state partnership exchanges	93.750

Dollar threshold used to distinguish between Type A
and Type B Programs 750,000

Auditee qualified as low risk? _____yes X no

B. Findings - financial statement audit

None

C. Findings and questioned costs - major federal awards programs audit

None